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FM AMEMBASSY BISHKEK
TO RUEHC/SECSTATE WASHDC 0972
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RUCNCIS/CIS COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 2504
RUEAUSA/DEPT OF AGRICULTURE WASHDC
RHEFDIA/DIA WASHDC
RUEKJCS/OSD WASHDC
RUEAIIA/CIA WASHDC
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUEHGV/USMISSION GENEVA 0897
RUEHVEN/USMISSION USOSCE 2898
RUCNDT/USMISSION USUN NEW YORK 2283
RUEHNO/USMISSION USNATO BRUSSELS BE
RUEHBS/USEU BRUSSELS
RUEHLMC/MILLENNIUM CHALLENGE CORP
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL

UNCLAS SECTION 01 OF 02 BISHKEK 000428

SIPDIS

SENSITIVE
SIPDIS

DEPT FOR SCA/CEN (GEHRENBECK), EEB/TPP/ABT/ATP (SPECK)

E.O. 12958: N/A

TAGS: [EAGR](#) [ECON](#) [SOCI](#) [KG](#)

SUBJECT: RESPONSE: IMPACT OF RISING FOOD/COMMODITY PRICES -
KYRGYZ REPUBLIC

REF: A. STATE 39410

[B](#). 07 BISHKEK 1173

[C](#). 07 BISHKEK 1339

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[1](#). (SBU) Summary: The Kyrgyz Republic, a net food importer with limited arable land, saw 28% food price inflation in 2007 and is likely to see its wheat import bill double to \$142 million in 2008. With wheat a major staple of the Kyrgyz diet, Kyrgyz officials have announced a 45,000 hectare expansion of land under wheat cultivation this year. State wheat reserves have reportedly doubled, and the Kyrgyz government has formed a prime ministerial-level Council on Food Security to develop appropriate strategies to ensure food (and political) stability. End summary.

Calming Demand

[2](#). (U) The Kyrgyz Republic, a major wheat consumer and net importer of foodstuffs, endured a precipitous price rise for basic commodities in August-October 2007. For 2007, the Kyrgyz National Statistics Committee reported overall food price inflation of 28%, but that figure masks price increases of 55% for baked and cereal products, 30% for dairy products, 43% for cooking oil and 48% for fruits. Food inflation moderated in late 2007, but has registered a slight uptick for the first quarter of 2008.

[3](#). (U) Kyrgyz officials advised Embassy that the Kyrgyz Republic will require nearly 1.1 million tons of wheat for 2008, and will be able to cover 800,000 tons of demand with domestic production. The net wheat import requirement (sourced almost exclusively from Kazakhstan) will be less than 2007's net import volume of 356,000 tons, but will exceed the 2006 figure of 223,000 tons. In 2006 and 2007, the Kyrgyz Republic also imported 47,000 and 52,000 tons of

flour from Kazakhstan, respectively. Embassy has not noticed any significant shift in consumption from wheat-based products to other foodstuffs.

Expanding Supply

¶4. (U) Kyrgyz Prime Minister Igor Chudinov recently revealed that the land area dedicated to wheat production in the Kyrgyz Republic, a largely mountainous country with limited arable land, will increase in 2008 by 45,000 hectares to roughly 400,000 hectares. (Note: However, Kyrgyz wheat is considered by local consumers to be inferior to Kazakh wheat. End note.) Amidst the rapid rise in bread prices late last year, Kyrgyz officials released approximately 37,000 tons of wheat from state reserves to increase supplies and stabilize prices. Although the figures on Kyrgyz state reserves are "confidential," Kyrgyz officials have advised Embassy that reserves have doubled over last year's quantities. The Kyrgyz also succeeded in negotiating supplies of Kazakh wheat, which will circumvent a recently announced Kazakh wheat export ban.

Minimal Political Impact

¶5. (SBU) While complaints about high food prices continue, there have been no signs of violence related to the issue. However, the government remains acutely aware of the political sensitivity of food, and particularly, bread prices. Government efforts to date seem aimed at minimizing any food disruptions.

Inflationary Economic Impact

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¶6. (U) Inflation has spiraled upwards as a result of commodity price hikes, and may hit 30% this year. The International Monetary Fund (IMF) has projected that the Kyrgyz Republic's wheat import bill may double to \$142 million in 2008. As the Kyrgyz Republic already runs a significant current account deficit (amounting to about \$728 million in 2007), high wheat prices will consume a significant amount of foreign exchange. With one IMF projection showing that the Kyrgyz government will run out of money later this year (septel), a continued rise in wheat prices combined with a significantly higher natural gas bill later this year will constrain the government's abilities to respond to further wheat price shocks.

¶7. (U) According to Kyrgyz Ministry of Agriculture officials, there is widespread undocumented export of Kyrgyz meat, dairy products and vegetables to neighboring (and more affluent) Kazakhstan. These transactions have accentuated price increases, and contributed to occasional shortages of foodstuffs. An early April snowstorm apparently had a devastating effect on fruit crops in the north, and higher fruit prices are already predicted for later this year.

Limited Environmental Impact

¶8. (U) While the government is encouraging farmers to till more land, the amount of available arable land is limited. In addition, water reservoirs, which power the Kyrgyz Republic's hydroelectric facilities, are at very low levels. As a result, the government has called for cutbacks on water usage in agricultural regions to protect electricity supplies. The government has also instituted rolling blackouts in an effort to allow water to accumulate in reservoirs.

Kyrgyz Government Policy Response

19. (U) While the Kyrgyz government has not imposed any trade restrictions or taken any steps to nationalize industries as a result of recent food price increases, the prime minister has created a "Council on Food Security" to formulate government strategies. The government has also allocated resources for the purchase of seeds, fertilizer and equipment for transfer to farmers at low interest rates. The VAT tax rate on imported grain, flour and vegetable oil has been reduced to 10%. The Kyrgyz parliament also recently passed legislation banning construction on agricultural land.

Post Programs and Policy Programs

10. (U) Embassy continues to accentuate existing U.S. government efforts that aid Kyrgyz citizens. Embassy will advise separately of the overall impact of food price increases on U.S. government assistance programs in the Kyrgyz Republic. Embassy will also advise at that time of any proposals for enhanced U.S. assistance on this subject.
YOVANOVITCH